

STATEMENT OF
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TO THE

COMMITTEE ON POST OFFICE
AND CIVIL SERVICE

HON. WILLIAM FORD
CHAIRMAN

HEARINGS ON THE EFFECT OF
REQUIRING NEW FEDERAL EMPLOYEES
TO BE TEMPORARILY COVERED
BY SOCIAL SECURITY AND THE
CIVIL SERVICE RETIREMENT SYSTEM

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WASHINGTON, D.C.

On behalf of the 120,000 Federal employees and retirees represented by the National Treasury Employees Union, we appreciate this opportunity to submit our views on the effect of requiring new Federal employees to be covered by both social security and the civil service retirement system.

The issue of how to alleviate the large financial burden that will be placed on Federal employees hired on or after January 1, 1984 due to their inclusion under the Social Security System is one that must be addressed. We commend you, Mr. Chairman, for the leadership and responsibility you have shown in seeking a rapid legislative solution to this problem.

Let us state from the outset that we view this issue as critical not just as an immediate concern, but for the long-term retirement security of Federal employees. During the debate earlier this year on the Social Security Amendments of 1983 (now Public Law 98-21), we opposed the inclusion of new Federal and postal employees under social security for numerous reasons. We were primarily concerned about the effects of this change upon the future solvency of the current civil service retirement system and upon the morale of the workforce where workers performing the same job would be paying different amounts for their retirement. When the law was enacted, we were told that Congress was committed to ensuring the financial security of civil service retirement and of relieving new workers of the burden of paying into both systems.

The time has come for Congress to make good on its commitment. On January 1, 1984, newly hired Federal and postal workers will pay approximately 14 percent of their gross salaries in social

security taxes and civil service retirement contributions. In addition, the Administration has endorsed a plan which, we believe, would disrupt the continuity of funding to the civil service retirement system.

In Senate hearings last week, Office of Personnel Management Director Donald J. Devine expressed the Administration's support for removing new employees totally from the civil service retirement system. Under this option, the employees would only pay into social security and would be allowed to purchase retroactive coverage in the new supplementary retirement plan that will be developed.

Having stated this position, however, the Director then went on to say that the Administration would be willing to consider requirements that the government continue to make contributions to the civil service retirement fund and to provide disability and survivor protection to these workers during that time. While we are glad that the Administration at least recognizes some of the problems associated with its recommendation, we cannot support this position.

It is not the fault of future Federal employees that Congress chose to cover them under social security while no supplementary retirement is in place. Given the complexity of developing such a retirement system and the extreme care and deliberation that must be taken before it is enacted, no one can say for sure exactly when the system would be in place. We believe that in order to guarantee the continuation of funding into the present system and protect employees to the fullest extent possible, a definite answer must be reached. The responsibilities of the

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government and the employees must be clearly articulated and enacted. Allowing new Federal and postal workers to remain covered only by social security for an indefinite period is simply unacceptable.

We believe that another solution must be found. The General Accounting Office listed five options that could be pursued. One of these -- the idea of granting new employees a tax credit for their civil service retirement contributions -- has a great deal of merit, but it has drawn significant opposition to the point where it probably cannot be enacted.

We believe that the best solution available would encompass the following features:

- all new employees would remain under the civil service retirement system until a new supplementary plan is enacted when they would be placed under that system;
- new employees would pay the 6.7 percent FICA tax;
- new employees would also pay 1.3 percent of the contributions to the civil service retirement system; this would be done to ensure that all workers are paying the same amount of their salaries toward retirement;
- the government would continue to pay 7 percent for each employee into the CSR fund;

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- the remaining 5.7 percent of the employees' contribution would be paid out of general revenues to be amortized over a thirty-year period.

We believe that this system offers the best available means to deal equitably with the problem at hand. The GAO estimates that employee contributions by new hires in 1984 would total about \$470 million. Deducting the 1.3 percent that the employees would pay, means that the government would amortize the remaining amount to be paid in authorized annual installments over 30 years. There is precedent for this in that Congress chose to handle part of the funding for the present civil service retirement system in this fashion. This offers a low-cost alternative to the problem.

In addition, our proposal ensures fairness by requiring that all employees pay the same amount for retirement. This would alleviate any problems with administration and morale that would certainly develop under present conditions.

Finally, this solution would fulfill Congress' commitment to maintain the funding of the present civil service retirement system. Eventually, the long-term issue of what happens when employee contributions to the fund diminish will have to be addressed. But in the interim, the stability of the system during the period when a supplementary plan is developed will be ensured. We urge the Subcommittee to adopt our proposal.

Mr. Chairman, this concludes my prepared remarks. We would be happy to answer any questions the Committee may have.